NSC STAFF PREPARED SUMMARY

Controls on Exports to the USSR of Oil and Gas Equipment and Technology

Issue: What licensing policy should the United States adopt on controlling exports to the USSR of equipment and technology for the exploration and development of Soviet oil and natural gas? Implicit in this decision is whether the U.S. should treat oil and gas production equipment and technology as strategic commodities.

The U.S. Policy on Soviet Energy Developments

The State options papers do not directly examine the basic question, "Is it in the interest of the U.S. and the Western industrial democracies to assist energy development in the Soviet Union?" The major arguments are:

Yes

-- Developing Soviet energy helps them overcome potential energy and hard currency shortages and reduces their motivation to aggression in the Persian Gulf area.

-- Increases the world oil supply and keeps the Soviets from purchasing on Western oil markets, reducing pressure on world oil prices.

-- Maintains a cooperative relationship with the Soviet Union in an important economic area to offset the competitive relationship in military sectors.

-- Results in substantial export and employment benefits for U.S. and Allied countries.

No

-- It is unlikely that the Soviet Union will ever become dependent on the world market for oil imports; if it decides to intervene in the Persian Gulf, it will do so for reasons other than to obtain oil; e.g., to deprive the West of oil.

-- Western equipment and technology reduces the costs of energy development to the Soviet Union and frees resources for application in the Military Sector.

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Approved For Release 2011/08/04 : CIA-RDP83B00140R000100080037-7

-- Western assistance contributes to an expansion of Soviet energy exports to the West and to Eastern Europe and increases their dependency on the USSR.

-- It is inconsistent to seek increases in defense expenditures while making it easier for the Soviets to devote resources to their military.

Current U.S. Policy

The Carter Administration imposed special licensing requirements on exports of oil and gas related items in 1978, and tightened controls in early 1980 as part of the response to the Soviet invasion of Afghanistan. The 1980 policy, currently in force, sets a general presumption to deny exports of technology for the manufacture of oil and gas equipment, but retains the presumption to approve exports of end use equipment not subject to multilateral COCOM controls.

We need to clarify or modify current policy on oil and gas equipment and technology -- a key element in our overall export control policy -- to inform U.S. business, our European Allies, and the Soviets of our intentions and to provide a framework for U.S. actions concerning the Siberian Pipeline.

Soviet Energy

The Soviet Union needs to expand its gas production and increase oil exploration and drilling to offset anticipated declines in oil production. Without such development it may be increasingly difficult to meet domestic and East European energy requirements, let alone to generate hard currency earnings by exports of oil and gas. The Soviets plan to use Western equipment in developing their resources, since it is substantially more efficient than Soviet equipment.

U.S. Technological Leverage

U.S. based firms are the sole source suppliers of certain advanced types of equipment and technology and generally dominate the world market in these areas. However, opinions differ widely on the quality and availability of substitutes for these items and on the effectiveness of unilateral U.S. restrictions. It is generally agreed, however, that Allied restrictions would have much more significant long-term effects on Soviet production than unilateral U.S. efforts.

Western European Perspective

Western European leaders generally favor unrestricted exports of oil and gas equipment and technology to the USSR and do not currently control exports in this area. Some see the Soviets as a more secure source than the Middle East and as a means to reduce their dependence on OPEC oil. They recognize that energy purchases from the Soviets will be spent in their own economies. A number of West European leaders also see development of domestic Soviet energy resources as mitigating Soviet adventurism in the Persian Gulf. They are thus likely to resist a restrictive approach to East-West energy trade.

Soviet Hard Currency Earnings

Oil exports currently provide about 50 percent of Soviet hard currency earnings. If Soviet oil production declines as CIA predictions indicate, the Soviets will be forced to discontinue oil exports by the end of this decade. Loss of this major source of hard currency could constrain Soviet ability to maintain current levels of imports from the West unless natural gas exports can be increased significantly.